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BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric  
Company for Adoption of Policy and Process  
For Acquisition of Incremental Core Gas  
Storage in Compliance with Ordering  
Paragraph 5 of Decision 04-09-022, And for  
Adoption of a Core Reliability Planning  
Standard.

(U 39 G)

Application 05-03-001

**COMMENTS OF  
PACIFIC GAS AND ELECTRIC COMPANY  
ON PROPOSED DECISION OF ALJ WONG:  
“OPINION REGARDING THE PROPOSAL FOR  
INCREMENTAL GAS STORAGE”**

ROBERT B. McLENNAN  
FRANK J. LINDH  
Law Department  
Pacific Gas and Electric Company  
Post Office Box 7442  
San Francisco, CA 94120  
Telephone: (415) 973-2069  
Fax: (415) 973-0516  
E-mail: [rbm4@pge.com](mailto:rbm4@pge.com)

Attorneys for  
PACIFIC GAS AND ELECTRIC COMPANY

July 10, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION  
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Pacific Gas and Electric Company (PG&E) appreciates the well-thought-out, well-written Proposed Decision of Administrative Law Judge Wong, issued on June 20, 2006, in PG&E’s incremental core storage proceeding, Application 05-03-001.

PG&E agrees with each of the clarifications of the Exhibit 20 stipulations described at mimeo pages 23 to 25 of the Proposed Decision.

**I. FUTURE CREDITWORTHINESS NEGOTIATIONS**

PG&E is also certainly willing to meet with the independent storage providers, Wild Goose Storage, Inc. (Wild Goose) and Lodi Gas Storage (Lodi), to try again to find a mutually acceptable creditworthiness solution that adequately protects PG&E’s customers at a reasonable cost, per the discussion in the Proposed Decision at mimeo pages 13 to 20. PG&E understands that the Proposed Decision does not adopt PG&E’s usual full-credit-guarantee-at-the-supplier’s-cost policy in this instance, and instead orders the parties to further work together to try to find a solution that costs less than PG&E’s full-credit-guarantee policy, while still proving assurance that the risk of loss of the stored gas will be covered. PG&E will work with the storage

providers to have a credit analysis agency analyze the financial strength of Wild Goose and Lodi, to obtain a third-party assessment of the use of insurance, to further pursue the possibility of liquidated damages provisions,<sup>1</sup> to assess metering<sup>2</sup> and historical performance, and anything else we can think of, per the discussion in the Proposed Decision at mimeo pages 18 and 19. However, PG&E has a couple of concerns and any further guidance from the Commission in the final decision would be greatly appreciated, and could simplify the discussions that will be held.

- All of the options for less than a full credit guarantee will almost certainly involve tradeoffs between the contradictory goals of minimizing core customer risk and cost, and minimizing cost for the independent storage provider. If the creditworthiness and insurance analyses do not demonstrate that an independent storage provider can cover the risk of loss of the gas, the Proposed Decision offers no guidance about the relative importance of the two goals to the Commission, and what the weighting between the two should be. Any guidance in the final decision would be helpful. Knowing the extent that the Commission is willing to expose core customers (or not) to risks that are fairly unlikely to happen, but when and if they do come with a significant cost, would greatly assist the discussions the Commission is ordering.
- In discussing a level playing field between Wild Goose, Lodi and PG&E's California Gas Transmission department (CGT), at mimeo page 17, the Proposed Decision implies that being creditworthy confers an unfair advantage that is contrary to the Commission's intent of "competitive provisioning of core

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<sup>1</sup> Although we will look further into the liquidated damages option, PG&E continues to have concerns about liquidated damages as a backstop if a supplier gets into operational or financial troubles. If a storage provider cannot cover the value of the underlying gas, how will they be able to pay liquidated damages?

<sup>2</sup> In Phase 2 of the Commission's gas capacity OIR, R. 04-01-025, there is pending a settlement between PG&E, Wild Goose and Lodi that would establish the rules for connections between independent storage providers and independent pipelines to permit independent pipelines access to storage services. Under the settlement, those connection meters will not be monitored by PG&E except for an annual statement provided by the independent storage providers that confirms that the connection was used for storage purposes only. Thus, a metering solution would not be workable when there are connections to the storage field that are not actively monitored by PG&E.

storage.” PG&E constantly deals with third parties in both the electric and gas arenas, and can unequivocally state that creditworthiness is a very valuable asset for any entity to bring to the negotiating table. If the Commission really wants PG&E to downplay creditworthiness (or its equivalent) as a factor in choosing suppliers, it should make that policy decision very clear. If the Commission is deciding that PG&E’s core procurement customers should assume greater risks in this unique situation in order to increase the number of potential storage providers, the Commission should waive PG&E’s normal credit policies only if the Commission is convinced that PG&E’s core procurement customers are appropriately compensated for taking on the additional risk. In addition, the waiver should be limited to only the upcoming request for offers, and not be continued indefinitely or applied to any other situation, since PG&E is constantly obtaining competitive services.

- On mimeo page 16 of the Proposed Decision, in the second paragraph, there is the sentence: “We recognize, however, that PG&E is exposed to risk if it stores gas with Wild Goose or with LGS.” It is actually our core procurement customers who will have purchased the gas to be stored. Particularly given PG&E’s position that an independent storage provider should fully meet PG&E’s credit requirements, it should be the customers who are exposed to the remaining risk if the Commission orders a lesser credit standard to be applied in this instance. The sentence should be changed to read: “We recognize however, that PG&E’s core procurement customers are exposed to risk if PG&E stores gas with Wild Goose or LGS.”

## **II. TECHNICAL CORRECTIONS**

- Footnote 5 on mimeo page 7 of the Proposed Decision cites Footnote 3 of the Partial Settlement, Exhibit 20 for the statement that the amount of storage capacity is likely to

change by the time the request for offers is issued. The statement is not contained in Exhibit 20, but was actually made in footnote 3 of PG&E's opening brief, dated February 17, 2006.

- On mimeo pages 14, 16, 17, 19 and 31 of the Proposed Decision, CGT is referred to as an affiliate of PG&E. CGT is actually a department within PG&E, the utility, and not an affiliate, so the references should be to "PG&E" or "PG&E's department, CGT."
- In Finding of Fact 27, there is a typo – "mans" should be "means."

PG&E appreciates the opportunity to comment.

Respectfully submitted,

/s/

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Robert B. McLennan

Law Department  
Pacific Gas and Electric Company  
77 Beale Street  
P.O. Box 7442  
San Francisco, CA 94120  
Telephone: (415) 973-2069  
Fax: (415) 973-0516  
E-mail: rbm4@pge.com

Attorney for  
Pacific Gas and Electric Company

July 10, 2006

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department, PO Box 7442, San Francisco, CA 94120.

On the 10<sup>th</sup> day of July, 2006, I served a true copy of:

**COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY ON PROPOSED  
DECISION OF ALJ WONG**

by electronic mail to the following CPUC service list: A. 05-03-001.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on the 10<sup>th</sup> day of July, 2006.

/s/

\_\_\_\_\_  
ROBERT B. McLENNAN

# THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA SERVICE LIST

Downloaded July 10, 2006, last updated on April 12, 2006

Commissioner Assigned: Dian Grueneich on March 18, 2005; ALJ Assigned: John S. Wong on March 18, 2005

## CPUC DOCKET NO. A0503001 CPUC REV 04-12-06

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### **CALIFORNIA ENERGY MARKETS**

517-B POTRERO AVE.

SAN FRANCISCO CA 94110

Email: cem@newsdata.com

Status: INFORMATION

KELLY ALLEN

### **TRANSWESTERN PIPELINE COMPANY**

REGULATORY AFFAIRS DEPARTMENT

5444 WESTHEIMER

HOUSTON TX 77056

Email: Kelly.Allen@crosscountryenergy.com

Status: INFORMATION

JEANNE B. ARMSTRONG ATTORNEY

### **GOODIN MACBRIDE SQUERI RITCHIE & DAY LLP**

505 SANSOME ST, STE 900

SAN FRANCISCO CA 94111

FOR: Wild Goose Storage, Inc.

Email: jarmstrong@gmssr.com

Status: APPEARANCE

Nilgun Atamturk

### **CALIF PUBLIC UTILITIES COMMISSION**

EXECUTIVE DIVISION

505 VAN NESS AVE RM 5303

SAN FRANCISCO CA 94102-3214

Email: nil@cpuc.ca.gov

Status: STATE-SERVICE

Eugene Cadenasso

### **CALIF PUBLIC UTILITIES COMMISSION**

RATEMAKING BRANCH

505 VAN NESS AVE AREA 4-A

SAN FRANCISCO CA 94102-3214

Email: cpe@cpuc.ca.gov

Status: STATE-SERVICE

DAN L. CARROLL ATTORNEY

### **DOWNEY BRAND, LLP**

555 CAPITOL MALL, 10TH FLR

SACRAMENTO CA 95814

FOR: Lodi Gas Storage, LLC

Email: dcarroll@downeybrand.com

Status: APPEARANCE

LISA DECARLO STAFF COUNSEL

### **CALIFORNIA ENERGY COMMISSION**

1516 9TH ST MS-14

SACRAMENTO CA 95814

FOR: CALIFORNIA ENERGY COMMISSION

Email: ldecarlo@energy.state.ca.us

Status: STATE-SERVICE

### **MRW & ASSOCIATES, INC.**

1999 HARRISON ST, STE 1440

OAKLAND CA 94612

Email: mrw@mrwassoc.com

Status: INFORMATION

Paul Angelopulo

### **CALIF PUBLIC UTILITIES COMMISSION**

LEGAL DIVISION

505 VAN NESS AVE RM 5031

SAN FRANCISCO CA 94102-3214

Email: pfa@cpuc.ca.gov

Status: APPEARANCE

DAVID L. ARTHUR

### **REDDING ELECTRIC UTILITY**

PO BOX 496071

REDDING CA 96049-7304

FOR: REDDING ELECTRIC UTILITY

Email: darthur@ci.redding.ca.us

Status: INFORMATION

KENNETH BRENNAN

### **PACIFIC GAS AND ELECTRIC COMPANY**

PO BOX 770000, MAIL CODE B9A

SAN FRANCISCO CA 94177

Email: kjbh@pge.com

Status: INFORMATION

RAY CAMACHO

### **SILICON VALLEY POWER**

1500 WARBURTON AVE

SANTA CLARA CA 95050

FOR: SILICON VALLEY POWER

Email: rcamacho@ci.santa-clara.ca.us

Status: INFORMATION

KEBLER CURTIS

### **GOLDMAN, SACHS & COMPANY**

2121 AVE OF THE STARS, 27/F

LOS ANGELES CA 90067

FOR: GOLDMAN, SACHS & COMPANY

Email: curtis.kebler@gs.com

Status: INFORMATION

RALPH DENNIS DIRECTOR, REGULATORY AFFAIRS

### **FELLON-MCCORD & ASSOCIATES**

9960 CORPORATE CAMPUS DRIVE, STE 2000

LOUISVILLE KY 40223

FOR: FELLON-MCCORD & ASSOCIATES

Email: ralph.dennis@constellation.com

Status: INFORMATION

# THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA SERVICE LIST

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LAW DEPARTMENT FILE ROOM  
**PACIFIC GAS AND ELECTRIC COMPANY**  
PO BOX 7442  
SAN FRANCISCO CA 94120-7442  
Email: cpucases@pge.com  
Status: INFORMATION

DAVID J. GILMORE ATTORNEY  
**SOUTHERN CALIFORNIA GAS COMPANY**  
555 WEST FIFTH ST, STE 1400  
LOS ANGELES CA 90013-1011  
FOR: SoCalGas  
Email: dgilmore@sempra.com  
Status: APPEARANCE

Jacqueline Greig  
**CALIF PUBLIC UTILITIES COMMISSION**  
ENERGY COST OF SERVICE & NATURAL GAS BRANCH  
505 VAN NESS AVE RM 4102  
SAN FRANCISCO CA 94102-3214  
FOR: ORA  
Email: jnm@cpuc.ca.gov  
Status: STATE-SERVICE

GREGORY HEALY  
**SOUTHERN CALIFORNIA GAS COMPANY**  
555 WEST FIFTH ST  
LOS ANGELES CA 90012  
Email: ghealy@semprautilities.com  
Status: APPEARANCE

THOMAS W. KING  
**TURLOCK IRRIGATION DISTRICT**  
333 EAST CANAL DRIVE  
TURLOCK CA 95382  
FOR: TURLOCK IRRIGATION DISTRICT  
Email: twking@tid.org  
Status: INFORMATION

Kelly C. Lee  
**CALIF PUBLIC UTILITIES COMMISSION**  
ENERGY COST OF SERVICE & NATURAL GAS BRANCH  
505 VAN NESS AVE RM 4102  
SAN FRANCISCO CA 94102-3214  
Email: kcl@cpuc.ca.gov  
Status: STATE-SERVICE

LISA LIEU CASE MANAGEMENT  
**PACIFIC GAS AND ELECTRIC COMPANY**  
PO BOX 770000, MAIL CODE B9A  
SAN FRANCISCO CA 94177  
Email: lk1@pge.com  
Status: INFORMATION

BRUCE FOSTER  
**SOUTHERN CALIFORNIA EDISON**  
601 VAN NESS AVE, STE. 2040  
SAN FRANCISCO CA 94102  
Email: bruce.foster@sce.com  
Status: INFORMATION

JAIRAM GOPAL FUELS OFFICE  
**CALIFORNIA ENERGY COMMISSION**  
1516 NINTH ST, MS-23  
SACRAMENTO CA 95814-5512  
Email: jgopal@energy.state.ca.us  
Status: STATE-SERVICE

MARCEL HAWIGER ATTORNEY  
**THE UTILITY REFORM NETWORK**  
711 VAN NESS AVE, STE 350  
SAN FRANCISCO CA 94102  
FOR: TURN  
Email: marcel@turn.org  
Status: APPEARANCE

CHRISTOPHER HILEN ATTORNEY  
**DAVIS WRIGHT TREMAINE, LLP**  
ONE EMBARCADERO CENTER, STE 600  
SAN FRANCISCO CA 94111  
Email: chrishilen@dwt.com  
Status: INFORMATION

GERALD LAHR  
**ABAG POWER**  
PO BOX 2050  
OAKLAND CA 94604  
FOR: ABAG Power  
Email: jerry@abag.ca.gov  
Status: APPEARANCE

JOHN W. LESLIE ATTORNEY  
**LUCE, FORWARD, HAMILTON & SCRIPPS, LLP**  
11988 EL CAMINO REAL, STE 200  
SAN DIEGO CA 92130  
FOR: Coral Energy Resources, LP  
Email: jleslie@luce.com  
Status: APPEARANCE

WILLIE G. MANUEL  
**TURLOCK IRRIGATION DISTRICT**  
333 EAST CANAL DRIVE  
TURLOCK CA 95382  
FOR: TURLOCK IRRIGATION DISTRICT  
Email: wgmanuel@tid.org  
Status: INFORMATION



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Total number of addressees: 43

DAVE MAUL  
**CALIFORNIA ENERGY COMMISSION**  
1516 NINTH ST, MS-48  
SACRAMENTO CA 95814  
Email: Dmaul@energy.state.ca.us  
Status: STATE-SERVICE

ROBERT B. MCLENNAN ATTORNEY  
**PACIFIC GAS AND ELECTRIC COMPANY**  
PO BOX 7442  
77 BEALE ST  
SAN FRANCISCO CA 94120  
FOR: Pacific Gas and Electric  
Email: rbm4@pge.com  
Status: APPEARANCE

KARL W. MEYER  
**NORTHERN CALIFORNIA POWER AGENCY**  
180 CIRBY WAY  
ROSEVILLE CA 95678  
FOR: NORTHERN CALIFORNIA POWER AGENCY  
Email: karl@ncpa.com  
Status: INFORMATION

Richard A. Myers  
**CALIF PUBLIC UTILITIES COMMISSION**  
RATEMAKING BRANCH  
505 VAN NESS AVE AREA 4-A  
SAN FRANCISCO CA 94102-3214  
Email: ram@cpuc.ca.gov  
Status: STATE-SERVICE

NORMAN A. PEDERSEN ATTORNEY  
**HANNA AND MORTON LLP**  
444 SOUTH FLOWER ST, STE 1500  
LOS ANGELES CA 90071-2916  
FOR: HANNA AND MORTON LLP  
Email: npedersen@hanmor.com  
Status: INFORMATION

MICHAEL PRETTO  
**CITY OF SANTA CLARA/SILICON VALLEY POWER**  
1500 WARBURTON AVE  
SANTA CLARA CA 95050  
FOR: CITY OF SANTA CLARA/SILICON VALLEY POWER  
Email: mpretto@ci.santa-clara.ca.us  
Status: INFORMATION

LYNN CHAS. RISER  
**PACIFIC GAS AND ELECTRIC COMPANY**  
77 BEALE ST, B9A  
SAN FRANCISCO CA 94105  
Email: lcr0@pge.com  
Status: INFORMATION

MICHAEL ROCHMAN  
**SPURR**  
1430 WILLOW PASS ROAD, STE 240  
CONCORD CA 94520  
FOR: SPURR (School Project for Utility Rate Reduction)  
Email: Service@spurr.org  
Status: APPEARANCE

RICHARD SMITH  
**MODESTO IRRIGATION DISTRICT**  
1231 11TH ST  
MODESTO CA 95352-4060  
FOR: MODESTO IRRIGATION DISTRICT  
Email: richards@mid.org  
Status: INFORMATION

GERRY STILLWAGON  
**MODESTO IRRIGATION DISTRICT**  
PO BOX 4060  
MODESTO CA 95352-4060  
FOR: MODESTO IRRIGATION DISTRICT  
Email: gerrys@mid.org  
Status: INFORMATION

ELIZABETH WESTBY  
**ALCANTAR & KAHL, LLP**  
1300 SW FIFTH AVE, STE 1750  
PORTLAND OR 97201  
Email: egw@a-klaw.com  
Status: INFORMATION

DAVID WHITE  
**GAS TRANSMISSION NORTHWEST**  
1400 SW FIFTH AVE.  
PORTLAND OR 97201  
FOR: TRANSCANADA'S GTN AND NORTH BAJA  
Email: david\_white@transcanada.com  
Status: INFORMATION

John S. Wong  
**CALIF PUBLIC UTILITIES COMMISSION**  
DIVISION OF ADMINISTRATIVE LAW JUDGES  
505 VAN NESS AVE RM 5019  
SAN FRANCISCO CA 94102-3214  
Email: jsw@cpuc.ca.gov  
Status: STATE-SERVICE

BILL WOOD  
**CALIFORNIA ENERGY COMMISSION**  
1516 NINTH ST, MS-48  
SACRAMENTO CA 95814  
Email: bwood@energy.state.ca.us  
Status: STATE-SERVICE

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Total number of addressees: 43

ERIC YUSSMAN REGULATORY ANALYST

**FELLON-MCCORD & ASSOCIATES**

9960 CORPORATE CAMPUS DRIVE

LOUISVILLE KY 40223

FOR: FELLON-MCCORD & ASSOCIATES

Email: [eyussman@knowledgeinenergy.com](mailto:eyussman@knowledgeinenergy.com)

Status: INFORMATION